



resorttrust

Annual Report 2002
Year Ended March 31, 2002

Japan's No.1 Resort Management Company
A Unique and Competitive Business Model

PROFILE

Established in 1973, RESORTTRUST, INC. has devoted 29 years to resort operations throughout Japan, in keeping with its aspiration of assisting people in the pursuit of more comfortable and fulfilling lifestyles. Today, Resorttrust is active in four main areas: Membership Operations, which involve the sale of memberships to the company's resort facilities; Hotel and Restaurant Operations; Golf Operations, which involve the development and operation of golf courses and sale of club memberships, and Medical Operations, which provide patients with diagnostic services using the latest medical technology and equipment.

The centerpiece of Resorttrust's operations is the XIV-series of membership resort hotels. These members-only luxury resort hotels make full use of two Resorttrust systems to ensure that members enjoy every convenience. The first is a timeshare system based on a system of joint ownership. Resorttrust has developed a timeshare calendar based on holiday trends and demand for vacationing among Japanese people. Vacation patterns in Japan vary greatly with the season and are shaped by concentrations of visitors at certain times of the year. Resorttrust's timeshare system guarantees 26 days a year of room-use to each of the 14 members that constitute an ownership group. The second is Resorttrust's exchange system, which allows members to swap occupancy days at one XIV facility for stays at other XIV facilities.

With 12 resorts nationwide, the XIV-series hotels take their place among the foremost names in Japan's membership resort industry. Moreover, Resorttrust has consistently ranked first in net sales in the industry for the past eleven years.

FINANCIAL HIGHLIGHTS

RESORTTRUST, INC. AND CONSOLIDATED SUBSIDIARIES
Years ended March 31

	Millions of yen (except per share data)				
	1998	1999	2000	2001	2002
Net sales	¥48,699	¥ 56,055	¥ 61,147	¥ 63,770	¥ 61,412
Operating income	3,658	4,142	6,440	7,603	6,115
Net income	1,902	1,445	3,212	4,130	2,896
Total assets	96,180	174,449	187,299	204,167	209,121
Total shareholders' equity	9,438	10,634	14,996	18,542	20,732
Per share:					
Net income (primary) (¥)	90.25	66.43	146.50	185.75	126.54
Net income (fully diluted) (¥)	89.47	66.13	143.37	185.38	122.12
Return on equity (ROE) (%)	24.48	14.40	25.07	24.63	14.75
Return on assets (ROA) (%)	1.95	1.07	1.78	2.11	1.40
Return on sales (ROS) (%)	3.91	2.58	5.25	6.48	4.72
Equity ratio (%)	9.81	6.10	8.01	9.08	9.91
Number of consolidated companies	2	9	12	12	15

Note: On May 7, 1997, Resorttrust split each share with a par value of ¥500 into 10 shares with a par value of ¥50. On February 20, 1998, the company conducted a 1:1.5 stock split. Per share data have been restated for the purpose of comparison in accordance with the above stock splits.

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In fiscal 2002, the year ended March 31, 2002, Resorttrust's operating income declined 19.6% from the previous fiscal year to ¥6,115 million. Sales eased by 3.7% to ¥61,412 million. Ordinary income fell 17.9% to ¥6,740 million and net income was down 29.9% to ¥2,896 million. Delays in the development of new resorts which would have contributed to sales revenue, and weakened demand due to the protracted recession in Japan, adversely affected our mainstay Membership Operations. Hotel and Restaurant Operations recorded increased sales, but higher refurbishing expenses and depreciation hurt profitability. On the positive side, sales of XIV Naruto Sanctuary Villa, slated to open in March 2003, have been extremely favorable, allowing us to achieve XIV membership contract targets. However, this new resort will not start contributing to sales and profit until fiscal 2003. Membership contracts for this facility totaled ¥5,994 million. Operating income of ¥1,200 million derived from real estate sales of ¥3,340 million will be recorded upon opening.

The following Q&A touches upon a number of questions frequently asked by investors.

Q1: What progress have you made with achieving VALUE PLAN 21?

Allocating corporate resources according to market needs

VALUE PLAN 21 was launched in 1998 to raise corporate value for all our stakeholders—shareholders, society, customers, and employees. The plan adopted the fairly conservative assumption that Japan's economy would not recover during the period of the plan and that the leisure market would be either flat or see marginal decline. Despite this cautious stance, we were convinced that the lifestyles of the Japanese people would continue to change. As regards vacations, we were confident that the Japanese would continue to seek more leisurely holidays. During the period of the plan we have been concentrating corporate resources on luxury resort development, primarily the XIV-series. In fiscal 2002, several strategic considerations persuaded us to pull out of Condominium Operations.

We were correct in both of our core assumptions. The leisure market was largely flat in the first four years of the plan, but the lifestyles

of Japanese people did show distinct changes. Events proved that our strategy of developing world-class luxury facilities meshed perfectly with the changing lifestyles in Japan. Events also showed that the market still packs considerable growth potential that can be realized if we stimulate demand correctly.

The extended recession in Japan has proved to be a blessing in disguise to Resorttrust because it has created opportunities, which we did not originally envision when we drew up our medium-term business plan. A certain number of luxury resorts, hotels and golf courses built during the so-called bubble period declared bankruptcy and subsequently came on the market at bargain-basement prices. These properties offer extra added-value for conversion into XIV-Series resorts.

Management issues and qualitative improvement

Although we reported lower sales and income in the fiscal year ended March 2002, at this point I am confident that the income from the completion of XIV Naruto Sanctuary Villa deferred from the previous year and sales since April 2002 for XIV Hamanako (slated to open March 2004) will enable us to reach our earnings targets for fiscal 2003, the final year of the medium-term business plan.

Number of guests is a key performance indicator in Hotel Operations, an operating segment that is important for stabilizing future earnings. We have made impressive strides here. In the first four years of the plan, the number of guests increased 27.5% and Hotel Operations' sales rose 37.0%. While we are satisfied with our achievement in terms of numerical goals, several difficult issues still need to be addressed, including employee training, performance evaluation, and operational reform.

Resorttrust is determined to implement the appropriate initiatives to resolve these issues. We are currently developing an action plan aimed at improving employee education and training, the job performance evaluation system and employee satisfaction. It will also address operational reform. Under the slogan "Service Enjoyed by Customers," the plan will focus on enhancing service quality, helping us to identify problems and find solutions.

Simultaneously, we are taking measures to reform management

attitudes. We are committed to enhancing management performance, as evidenced by the announcement that Resorttrust has introduced the Malcom Baldrige National Quality Award Evaluation from America as the benchmark for measuring management performance.

Q2: Do you plan another medium-term business plan after the current one expires?

Creating new markets

We believe that the present serious deflationary environment will start to ease after three years. But Japan's economy is unlikely to return to the high-growth period. It is more likely that Japan's economy will enter an extended period of stable growth. The new economic environment will encourage several new trends. Leisure will become more personalized as clear distinctions appear in individual income levels, but demand for leisure services will continue to grow. Quality resorts will continue to be in demand, although the stance toward leisure itself will change. Changes in personal values and a wider range of hobbies will bring about fundamental shifts as people show a preference for traveling in small groups rather than in the group tours of the past. Japan's resort membership market, estimated at roughly ¥30,000 million is still miniscule compared to that the U.S. market, which is around ¥450,000 million. Compared to the industrialized Western countries, Japan's hotel and leisure sector is still a minor market and very much in the initial growth stage. Resorttrust is determined to nurture this sector into a major market by creating new demand. This we hope to achieve by responding to people's natural desire for things of quality while at the same time not overlooking the changing environment, attitudes and values.

Uninterrupted development of resort facilities and sustained growth

Several projects are on the drawing board: Sanctuary Villas at Naruto and Karuizawa, XIV resort hotels at Hamanako and in the Kansai region, and the Tokyo Bayside Resort. All are slated for development over the next five years. Foresight is the prerequisite for success in any business. If history is any guide, early and cost-conscious investment in a growth market yields attractive returns. Resorttrust is the pioneer in timesharing and exchange systems in Japan, experience we have

leveraged to develop a successful business model. I see our new development projects as seeds that will put up successful shoots from our business model—and this makes me confident that we will be able to sustain competitive advantage over latecomers to the industry. The market for membership in high-class luxury resorts is limited to the affluent few and this means that we should not look for an explosive growth in earnings. Rather, our objective should be to progressively strengthen our earnings power by steadily developing new resort facilities while generating growing cash flows. I am sure that the new facilities we bring on stream over the next five years will allow us to sustain stable growth rates.

Maintaining facilities in prime condition to bolster earnings power

There is room for further streamlining of our resort management operations. Our large membership base of 80,000 people enables us to keep down marketing costs in Hotel and Restaurant Operations and is also a stable earnings stream. We have to increase added value by enhancing service and continuing maintenance and repair to further boost our earnings power. In other words, we must ensure that our facilities are always in superb condition. We need to increase occupancy rates by upgrading our facilities to make them more attractive while, at the same time, generating adequate returns. Toward that end, we introduced the Amortizing Deposit System and bolstered maintenance services. Other necessary initiatives will be implemented as we move forward.

Toward stable earnings growth

Resorttrust's business model is designed to increase the weight of earnings from Hotel and Restaurant Operations as the company builds new resort hotels. At present, roughly 70% of operating income comes from Membership Operations, with the rest being contributed by Hotel and Restaurant Operations. We aim to steadily increase the weight of hotel operations, which provide a steady stream of income. Steady gains in the medium-term profitability of our Hotel and Restaurant Operations, a reliable cash flow source, will upgrade our business model into one that allows us to project profit more precisely, as well as ensuring that we continue as a company with strong and steady earnings growth.



YOSHIRO ITO (left)
Chairman and CEO
KATSUYASU ITO
President and COO

Q3: What is your thinking behind the “Tokyo Bayside Resort Development Plan?”

One business development concept that Resorttrust has long been committed to is the development of resorts close to urban centers. XIV Biwako is one such resort that we developed recently. It is a luxury development, located in a scenic area but still close to an urban center — it is also one of our XIV success stories. I have strongly felt that this is a basic business concept on which we must build. With the “Tokyo Bayside” project we have done just that. This project perfectly fits this thinking. We have already acquired land on the Tokyo waterfront, in the popular Odaiba area. We have developed a plan to build an urban resort membership hotel where members will hold partial ownership condominiums. It is slated to open in 2007. From the standpoint of resort development, Tokyo is attractive given the heavy tourist traffic it draws. Moreover, the city is also home to the residents of the metropolitan region. A recent survey of 70,000 Resorttrust members showed that most viewed the Tokyo waterfront not as just another Tokyo business sub-center but as a resort area. This strongly suggests that the Tokyo waterfront offers an excellent location for resort development. The new hotel will function as a full-service resort with the highest level of service — a hotel where members can relax in complete comfort.

Q4: Does Resorttrust have a clearly defined brand strategy?

Resorttrust is already Japan’s No. 1 resort development and management company. Our brand name is now well recognized throughout Japan. However, if we think about the world’s other major resort management companies, we realize we still have a long way to go in developing our brand name. Nonetheless, our goal is to build a global brand in the same league as the world’s leading hotel and resort development and management firms. We know that relying on mass media advertising is not the way to achieve that. Rather, we have launched a project to strengthen our brand by fundamentally reforming the quality of our management. This project entails strengthening the Resorttrust brand by improving the quality of service, which means that enhancing the quality of our human resources is the key. We

have launched employee education and training programs to significantly improve our human resources through a voluntary commitment to provide our guests with world-class service. Our approach to hardware development will change from one focused on sale of real estate to one geared to providing high quality services.

Q5: What is the outlook for Resorttrust’s golf operations?

Golf club operators in Japan have been going bankrupt one after the other. It is natural that in an environment like this, questions will be raised about our strategy of strengthening our presence in golf club operations and our acquisition of six golf clubs over the past four years. Let me assure you that all these acquisitions were in line with clearly defined investment policies. We are still interested in acquiring golf clubs that fit well with our investment policies. We are looking for golf clubs that enable us to acquire or expand facilities. When such a golf club is adjacent to our own resort hotels, we can stimulate membership growth and in turn increase the usage of the acquired golf club. A good example is the Grand XIV Naruto, a multi-purpose facility redesigned to include a resort and a golf club with extensive grounds. For Japanese people, golf is often synonymous with leisure. Including a golf club in a resort development project is indispensable for our strategy of building larger resort facilities. Most of our golf clubs generate positive cash flows, although they remain in the red after depreciation. No independent golf club operator can expect to stay solvent under such conditions. But as a provider of comprehensive, multi-purpose resorts, what we seek to do is to derive synergies between resorts and golf operations that allow the entire resort facility to remain profitable.

August 2002

Katsuyasu Ito
President and Chief Operating Officer




MEMBERSHIP OPERATIONS

Planning and development of luxury resorts and sales of memberships are the core businesses in Membership Operations. Resorttrust's basic thinking with the core XIV brand resorts is to build "high-grade facilities on par with the world's best" and develop resorts "that are close by, but seem a world away." Suffused with these ideals, our XIV resorts in Japan offer world-class luxury facilities in popular tourist areas only a few hours' drive from the three major urban centers, Tokyo, Osaka and Nagoya. In fiscal 2002, approximately 1.4 million people stayed at 12 XIV resorts in Japan.

The efficient and fair approach of our proprietary timeshare and exchange systems give us an important advantage in marketing XIV memberships. The timeshare system guarantees 26 days of room-use to each of the 14 members that constitute an ownership group. The exchange system allows members to swap occupancy days that they don't intend to use at one facility for stays at another facility, making the overall system function efficiently. Sales operations currently focus on marketing memberships in XIV Tateshina XIV Hatsushima Club and XIV Naruto, three resorts already operating,

COMPANY OUTLINE




as well as in XIV Hamanako and XIV Naruto Sanctuary Villa, two resorts now under development.

HOTEL AND RESTAURANT OPERATIONS

Resorttrust operates membership-based resort hotels. A membership base of roughly 80,000 XIV and Sun Members allows us to control marketing costs while sustaining high occupancy rates. We therefore focus on increasing customer satisfaction by providing the highest level of members-only services. These high-quality services are what distinguish the XIV brand. Our staff knows each and every customer by name, as well as their likes and dislikes. Other detailed services include suggestions of activities based on information from their previous stays. We offer a generously priced selection of innovative Japanese, Western and Chinese haute cuisine prepared by some of the world's elite chefs.

GOLF OPERATIONS

As a provider of comprehensive multi-purpose resorts, we have been seeking to derive synergies between resorts and golf operations since fiscal 1999. Our golf courses and services are designed with players in mind, engendering satisfaction with both facilities and quality of service.



Renowned professionals such as Jack Nicklaus and Robert Trent Jones, Jr. design our golf courses for strategic play. As a result, Resorttrust's golf courses are highly popular, consistently ranking among the industry's best.

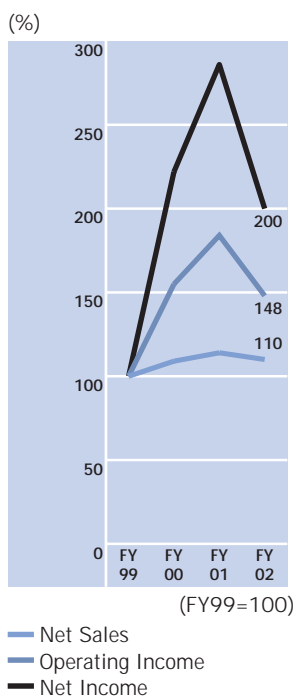
MEDICAL OPERATIONS

Resorttrust's Medical Operations involve the development of the HIMEDIC members-only health-care service, membership marketing and the operation of HIMEDIC facilities. HIMEDIC members can undergo advanced medical tests using the latest medical technology and equipment. In addition to state-of-the-art medical diagnosis equipment such as the helical X-ray CT scanners and Magnetic Resonance Imaging (MRI) equipment, Resorttrust offers the most modern equipment for other medical tests. This includes Positron Emission Tomography (PET) equipment capable of detecting cancerous growth only a few millimeters in size. In recent years health consciousness has increased, as people demand healthier lives. As the first medical facility in Japan with a resort hotel, HIMEDIC Yamanakako Club enables members to undergo advanced medical tests in comfortable resort surroundings.

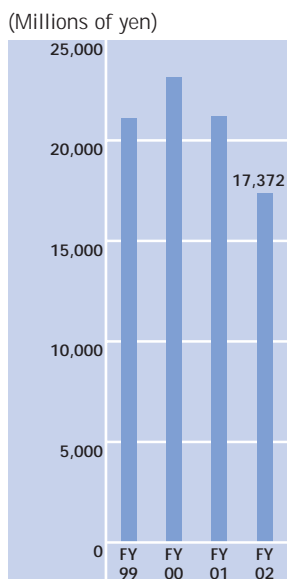
MANAGEMENT'S DISCUSSION AND ANALYSIS OF OPERATIONS

6 RESORTTRUST

Revenue Growth Rates



Sales of Membership Operations



1. OVERVIEW OF OPERATING RESULTS FOR THE YEAR ENDED MARCH 31, 2002

The inauguration of the Koizumi administration raised hopes that structural reforms would get underway in earnest, a sentiment that drove up the Nikkei Stock Average. However, progress in structural reform had several short-term negative effects: reforms led to cutbacks in public sector investment; capital investment in the private sector cooled as demand from the IT sector weakened; unemployment rose as bankruptcies increased and corporations streamlined operations; and consumer spending stagnated, reflecting lower disposable income. The terrorist attacks in the U.S. worsened the situation, driving down the Nikkei Stock Average to below ¥10,000. Reflecting the cumulative impact of these factors, fiscal 2002, ended March 2002, real GDP is expected to show negative growth.

Certain facilities, such as Universal Studios Japan in Osaka and Tokyo Disney Sea, new developments that were topics of considerable interest, enjoyed favorable operations. But as consumers became more demanding in their choice of leisure facilities, the business environment of the wider leisure market remained severe. In our Hotel and Restaurant Operations, GRAND XIV Marine & Thalasso Resort XIV Hatsushima Club and GRAND XIV Golf & Spa Resort XIV Naruto contributed for the full year and underpinned sales. However, a decline in willingness to spend reflected falling prices in a deflationary environment, in addition to weak corporate profit and growing uncertainties over the economy. Moreover, delays in launching sales of newly developed facilities affected mainstay Membership Operation sales.

As a result of these factors, consolidated net sales declined 3.7% to ¥61,412 million and operating income fell 19.6% to ¥6,115 million. Net income was down 29.9% to ¥2,896 million.

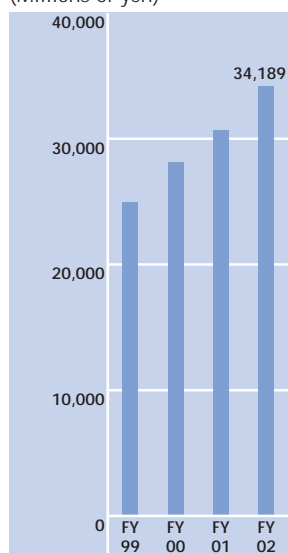
2. OVERVIEW OF RESULTS BY SEGMENT

Membership Operations

In fiscal 2002 sales of memberships in GRAND XIV Marine & Thalasso Resort XIV Hatsushima Club and GRAND XIV Golf & Spa Resort XIV Naruto were favorable. However, Japan's economy slowed, following the September 11 terrorist attacks in New York and Washington. Concerns started to rise, particularly about a solution to the bad debt problem of banks. Moreover, accounting of sales of memberships in the XIV Naruto Sanctuary Villa, launched in February 2002, was postponed to the next fiscal year. As a result, operating income from Membership Operations declined 17.4%, to ¥5,408 million, as sales eased back 18.1% to ¥17,372 million.

Sales of Hotel and Restaurant Operations

(Millions of yen)



Hotel & Restaurant Operations

Net sales of Hotel and Restaurant Operations rose 11.5%, to ¥34,189 million, as XIV Hatsushima Club and XIV Naruto, opened a year earlier, contributed to full fiscal year sales for the first time. Operating income fell 15.0% to ¥2,176 million. Although the number of guests increased and capacity utilization rates rose, selling, general and administrative expenses, particularly for maintenance and repair and personnel expenses, rose 13.9%, offsetting the above gains.

Condominium Operations

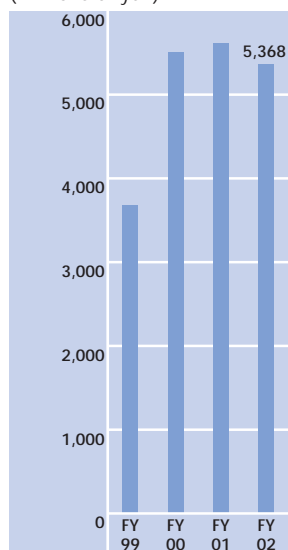
Resorttrust in fiscal 2002 pulled out of Condominium Operations. Sales plunged 60.3% to ¥1,234 million as we quickly unloaded inventory and leased out some newly completed condominium buildings. Condominium Operations recorded a ¥44 million operating loss, whereas last year they had posted an operating income of ¥704 million.

Golf Operations

Net sales of Golf Operations retreated 4.4% to ¥5,368 million. Golf Operations recorded an operating loss of ¥115 million, a reversal from ¥107 million in operating income recorded in the previous fiscal year. The decline in net sales represents the downward side of a peak in membership sales plus lower average spending by members at a time of deflationary pressures. However, the decline in the number of golfers seems to be bottoming out.

Sales of Golf Operations

(Millions of yen)



Medical Operations

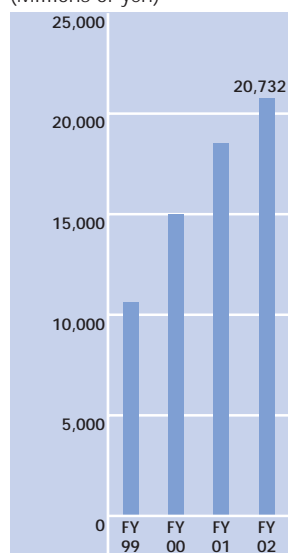
Effective from the current fiscal year, sales and expenses of the medical membership operations folded into Membership Operations in prior periods will be reported as an independent segment, "Medical Operations." Net sales of Medical Operations declined 4.5% to ¥2,615 million, since more than 90% of the memberships offered have already been sold. Selling, general and administrative expenses declined in the absence of long-term pre-paid expenses and as a result, operating income rose 5.6% to ¥699 million.

Other Operations

Effective from the current fiscal year, interest on operating loans receivable at consolidated subsidiaries, included in Membership Operations in prior periods, is presented as a separate item, "Other Operations."

Total Shareholders' Equity

(Millions of yen)



Net interest on operating loans receivable increased 50.2% to ¥634 million reflecting a substantial increase in operating loans receivable. Operating income rose 38.9% to ¥239 million.

3. FINANCIAL POSITION**Assets**

In current assets, operating loans receivable rose 34.3% from the previous fiscal year to ¥11,391 million, due mainly to an increase in loans provided by JUSTFINANCE Co., Ltd. Available for sale securities increased 109.7% to ¥10,839 million due to purchases of commercial paper, including that of Oberek Limited.

Investment securities decreased 29.3%, to ¥4,011 million, a decline due to the sale of equity securities and a ¥512 million extraordinary loss on write-downs.

Liabilities and Minority Interests

Convertible bonds rose by ¥3,405 million mainly due to a Swiss Franc-denominated convertible bond issue in fiscal 2002.

Deposits declined 16.0% from the previous fiscal year to ¥103,348 million, primarily because of the conversion into stock of membership deposits at the St. Creek Golf Club, managed by Japan Classic Co., Ltd, a consolidated subsidiary, and at Springfield Golf Club, managed by Tajimi Classic Co., Ltd. Minority interests increased 110.6% to ¥38,208 million.

Shareholders' Equity

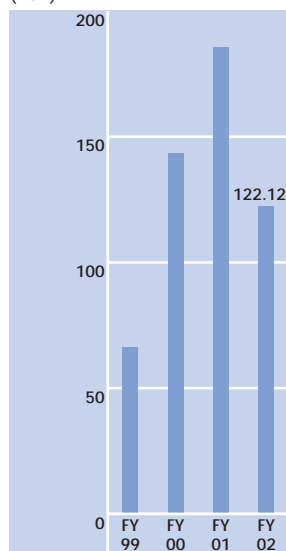
Shareholders' equity increased 11.8% to ¥20,732 million as a result of higher retained earnings at the end of the fiscal year. The equity ratio was 9.91%, while return on equity (ROE) was 14.75%.

4. CONSOLIDATED CASH FLOWS

Cash and cash equivalents at the end of the consolidated fiscal year rose ¥3,951 million, or 19.2%, to ¥24,563 million, primarily as the result of the expanded scope of consolidation. Although income before income taxes fell ¥1,529 million compared to the previous fiscal year, to ¥5,951 million, this decline was

Net Income per Share (fully diluted)

(Yen)



offset by proceeds of ¥19,979 from minority shareholders in line with the conversion of golf club subsidiary memberships into stock.

Cash Flows from Operating Activities

Net cash provided by operating activities increased 2.0% to ¥7,107 million. Net income before income taxes declined ¥1,529 million compared to the previous fiscal year. This was outweighed by non-cash expense of ¥3,065 million on revaluation of fixed assets.

Cash Flows from Investing Activities

Net cash used in investment activities fell 44.8% to ¥6,832 million. This included ¥3,701 million for the purchase of tangible fixed assets related to the construction of The Tradition Golf Club and ¥2,202 million payment for the acquisition of marketable securities.

Cash Flows from Financing Activities

Net cash provided by financing activities was ¥3,368 million, 61.8% lower than the previous fiscal year. This was mainly attributable to ¥3,331 million in proceeds from a Swiss Franc-denominated convertible bond issue and ¥19,979 million from issuance of preferred stock to minority shareholders.

CONSOLIDATED BALANCE SHEETS

RESORTTRUST, INC. AND CONSOLIDATED SUBSIDIARIES
March 31, 2001 and 2002

10 RESORTTRUST

ASSETS	Millions of yen		Thousands of U.S. dollars (Note 1)
	2001	2002	2002
Current Assets:			
Cash and time deposits	¥ 21,565	¥ 24,029	\$ 180,330
Marketable securities (Notes 3 and 4)	5,169	10,839	81,343
Receivables:			
Trade notes (Notes 4 and 15)	3,173	2,469	18,529
Trade accounts	2,550	1,625	12,195
Operating loans	8,482	11,391	85,486
Loans and other accounts	124	107	803
Allowance for doubtful receivables	(351)	(321)	(2,409)
	13,978	15,271	114,604
Inventories:			
Real estate for sale	11,343	8,601	64,548
Real estate development costs	6,356	9,091	68,225
Merchandise	144	293	2,199
Raw materials and supplies	422	327	2,454
	18,265	18,312	137,426
Pledged time deposits (Note 4)	2,526	1,876	14,079
Deferred tax assets (Note 5)	781	1,589	11,925
Other current assets	2,274	2,007	15,062
Total current assets	64,558	73,923	554,769
Investments and Other Non-current Assets:			
Investment securities (Notes 3 and 4):			
Subsidiaries and affiliates	1,120	65	488
Other	4,556	3,946	29,613
	5,676	4,011	30,101
Long-term loans receivable	309	252	1,891
Deferred tax assets (Note 5)	723	669	5,021
Other investments and non-current assets (Note 4)	4,850	4,695	35,235
Total investments and other non-current assets	11,558	9,627	72,248
Property and Equipment, at Cost (Note 4):			
Land	27,229	24,632	184,856
Buildings and structures	76,986	76,860	576,810
Machinery and equipment	53,373	53,471	401,283
Construction in progress	4,243	5,877	44,105
	161,831	160,840	1,207,054
Accumulated depreciation	(36,863)	(38,964)	(292,412)
Net property and equipment	124,968	121,876	914,642
Intangible Assets (Note 4)	3,083	3,695	27,729
	¥204,167	¥209,121	\$1,569,388

See accompanying notes.

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of yen		Thousands of U.S. dollars (Note 1)
	2001	2002	2002
Current Liabilities:			
Bank loans (Note 4)	¥ 8,010	¥ 5,250	\$ 39,400
Current portion of long-term debt (Note 4)	4,793	5,666	42,522
Trade notes payable	396	9	67
Trade accounts payable	826	546	4,098
Accounts payable — construction	710	391	2,934
Income taxes payable (Note 5)	2,193	1,711	12,840
Accrued expenses	5,697	6,906	51,827
Detachable stock purchase warrants (Note 4)	92	87	653
Deferred income	2,199	2,422	18,176
Other current liabilities (Note 4)	947	2,789	20,931
Total current liabilities	25,863	25,777	193,448
Long-term Liabilities:			
Long-term debt, due after one year (Note 4)	12,321	17,025	127,767
Employees' retirement benefits (Note 6)	549	447	3,355
Directors' retirement benefits	815	845	6,341
Long-term security deposits (Note 4)	123,003	103,348	775,595
Leveraged lease partnership (Note 12)	1,433	—	—
Deferred tax liability on land revaluation	428	428	3,212
Other non-current liabilities	3,070	2,311	17,344
Total long-term liabilities	141,619	124,404	933,614
Contingent Liabilities (Notes 4 and 8)			
Minority Interests (Note 13)	18,143	38,208	286,739
Shareholders' Equity (Note 7):			
Common stock:			
Authorized — 54,000,000 shares			
Issued — 22,842,321 shares — 2001			
22,917,897 shares — 2002	3,238	3,315	24,878
Capital surplus	2,852	2,934	22,019
Revaluation surplus	599	599	4,495
Retained earnings	12,022	13,869	104,083
Net unrealized holding gains (losses) on securities	(169)	16	120
Treasury stock, at cost 39 shares —2001, 168 shares —2002	—	(1)	(8)
Total shareholders' equity	18,542	20,732	155,587
	¥204,167	¥209,121	\$1,569,388

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

RESORTTRUST, INC. AND CONSOLIDATED SUBSIDIARIES
Years ended March 31, 2001 and 2002

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	Millions of yen						
	Number of Issued Shares	Common Stock	Capital Surplus	Revaluation Surplus	Retained Earnings	Net Unrealized Holding Gains (Losses) on Securities	Treasury Stock
Balance at March 31, 2000	22,131,235	¥2,935	¥2,540	¥599	¥ 8,923	¥ -	¥ -
Net income					4,130		
Net unrealized holding losses on securities						(169)	
Cash dividends (¥40 per share)					(889)		
Bonuses to directors and statutory auditors					(142)		
Exercise of warrants	711,086	303	312				
Balance at March 31, 2001	22,842,321	3,238	2,852	599	12,022	(169)	-
Net income					2,896		
Net unrealized holding gains on securities						185	
Cash dividends (¥40 per share)					(915)		
Bonuses to directors and statutory auditors					(139)		
Effect of increase in reporting entities					5		
Exercise of warrants	75,576	77	82				
Purchases of treasury stock							(1)
Balance at March 31, 2002	22,917,897	¥3,315	¥2,934	¥599	¥13,869	¥ 16	¥(1)

	Thousands of U.S. dollars (Note 1)						
	Common Stock	Capital Surplus	Revaluation Surplus	Retained Earnings	Net Unrealized Holding Gains (Losses) on Securities	Treasury Stock	
Balance at March 31, 2001	\$24,300	\$21,403	\$4,495	\$ 90,221	\$(1,268)	\$ -	
Net income				21,734			
Net unrealized holding gains on securities					1,388		
Cash dividends (¥40 per share)				(6,867)			
Bonuses to directors and statutory auditors				(1,043)			
Effect of increase in reporting entities				38			
Exercise of warrants	578	616					
Purchases of treasury stock						(8)	
Balance at March 31, 2002	\$24,878	\$22,019	\$4,495	\$104,083	\$ 120	\$(8)	

See accompanying notes.

CONSOLIDATED STATEMENTS OF CASH FLOWS

RESORTTRUST, INC. AND CONSOLIDATED SUBSIDIARIES

Years ended March 31, 2001 and 2002

14 RESORTTRUST

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2001	2002	2002
Cash flows from operating activities:			
Income before income taxes	¥ 7,480	¥ 5,951	\$ 44,661
Adjustments to reconcile net income before taxes to net cash provided by operating activities:			
Depreciation and amortization	4,127	4,414	33,125
Reserve for employees' and directors' retirement benefits	407	(109)	(818)
Interest and dividend income	(205)	(112)	(841)
Interest expense	437	279	2,094
Gain on termination of leveraged lease partnerships	(76)	(2,945)	(22,101)
Write-down of golf memberships	17	11	83
Write-down of headquarters land and building	-	3,054	22,919
Increase in trade receivables	(4,801)	(1,205)	(9,043)
Increase in inventories	(1,716)	(858)	(6,439)
Increase (decrease) in trade payables	278	(674)	(5,058)
Increase (decrease) in advances from customers	(683)	1,978	14,844
Increase (decrease) in long-term security deposits	4,371	(1,038)	(7,790)
Increase in accrued expenses	314	1,205	9,043
Directors' bonuses paid	(142)	(139)	(1,043)
Other, net	944	1,527	11,460
	10,752	11,339	85,096
Interest and dividends received	266	149	1,118
Interest expense paid	(518)	(280)	(2,101)
Income tax paid	(3,532)	(4,101)	(30,777)
Net cash provided by operating activities	6,968	7,107	53,336
Cash flows from investing activities:			
Increase in time deposits	(1,983)	(1,895)	(14,221)
Decrease in time deposits	3,154	3,282	24,630
Purchase of investment securities	(3,844)	(8,202)	(61,554)
Proceeds from sales of investment securities	2,014	3,529	26,484
Payments for property and equipment	(11,029)	(4,328)	(32,480)
Proceeds from sales of property and equipment	-	7	53
Increase in loans receivable	(30)	(70)	(525)
Decrease in loans receivable	133	144	1,080
Other	(784)	701	5,261
Net cash used in investing activities	(12,369)	(6,832)	(51,272)
Cash flows from financing activities:			
Increase (decrease) in short-term loans	1,300	(2,760)	(20,713)
Proceeds from long-term debt	7,645	7,280	54,634
Payments of long-term debt	(7,469)	(5,109)	(38,341)
Redemption of bonds	(2,208)	-	-
Proceeds from issuance of bonds	-	3,331	24,998
Proceeds from issuance of common stock	506	147	1,103
Proceeds from issuance of preferred stock to minority shareholders (Note 13)	18,003	19,979	149,936
Payments of long-term security deposits	(8,107)	(18,585)	(139,474)
Cash dividends	(889)	(915)	(6,867)
Other	29	-	-
Net cash provided by financing activities	8,810	3,368	25,276
Effect of exchange rate changes on cash and cash equivalents	32	36	270
Net increase in cash and cash equivalents	3,441	3,679	27,610
Cash and cash equivalents at beginning of period	17,171	20,612	154,687
Cash and cash equivalents of newly consolidated subsidiaries	-	272	2,041
Cash and cash equivalents at end of period	¥ 20,612	¥ 24,563	\$ 184,338

See accompanying notes.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

RESORTTRUST, INC. AND CONSOLIDATED SUBSIDIARIES

ANNUAL REPORT 2002 15

1. Basis of Presenting Consolidated Financial Statements

RESORTTRUST, INC (the "Company") and its consolidated domestic subsidiaries (together, the "Companies") maintain their official accounting records in Japanese yen and in accordance with the provisions set forth in the Japanese Commercial Code and accounting principles and practices generally accepted in Japan ("Japanese GAAP"). Certain accounting principles and practices generally accepted in Japan are different from International Accounting Standards and standards in other countries in certain respects as to application and disclosure requirements. Accordingly, the consolidated financial statements are intended for use by those who are informed about Japanese accounting principles and practices.

The accompanying consolidated financial statements have been restructured and translated into English (with some expanded descriptions and the inclusion of statements of shareholders' equity) from the consolidated financial statements of the Company prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Securities and Exchange Law. Some supplementary information included in the statutory Japanese language consolidated financial statements, but not required for fair presentation is not presented in the accompanying financial statements.

The translation of the Japanese yen amounts into U.S. dollars are included solely for the convenience of readers, using the prevailing exchange rate at March 31, 2002, which was ¥133.25 to U.S.\$1.00. The convenience translations should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other rate of exchange.

2. Summary of Significant Accounting Policies

(1) Consolidation

The consolidated financial statements include the accounts of the Company and its 15 (12 in 2001) significant subsidiaries that meet control requirements for consolidation. Investments in 1 (5 in 2001) unconsolidated subsidiaries and affiliates are not accounted for by the equity method, because they are insignificant. Intercompany transactions and accounts have been eliminated. The difference between the cost of investments and equity in net assets at the date of acquisition, with minor exceptions, is being amortized over five years.

In the elimination of investments in subsidiaries, the assets and liabilities of the subsidiaries, including the portion attributable to minority shareholders, are evaluated using the fair value at the time the Company acquired control of the respective subsidiaries.

(2) Consolidated statements of cash flows

In preparing the consolidated statements of cash flows, cash on hand, readily-available deposits and short-term highly liquid investments with maturities not exceeding three months at the time of purchase are considered to be cash and cash equivalents.

The differences between cash and time deposits on the consolidated balance sheet and cash and cash equivalents is shown below:

	Millions of yen		Thousands of U.S. dollars
	2001	2002	2002
Cash and time deposits on consolidated balance sheets	¥21,565	¥24,029	\$180,330
Pledged time deposits	2,526	1,876	14,079
Money management fund included in marketable securities	1,001	–	–
Medium-term national bond investment trust	–	1,750	13,133
Less time deposits with original maturities of three months or over and pledged	(4,480)	(3,092)	(23,204)
Cash and cash equivalents for purposes of the statements of cash flows . . .	¥20,612	¥24,563	\$184,338

(3) Allowance for doubtful receivables

Effective April 1, 2000, the Companies adopted the new accounting standard for financial instruments and provide for doubtful accounts principally at an amount computed based on past experience plus estimated uncollectible amounts based on the analysis of certain individual accounts.

(4) Translation of foreign currencies

Short-term receivables and payables denominated in foreign currencies are translated into Japanese yen at the year-end rates, except for those, hedged by foreign exchange forward contracts. Prior to April 1, 2000, long-term receivables and payable denominated in foreign currencies were translated at historical rates.

Effective April 1, 2000, the Companies adopted the revised accounting standard for foreign currency translation ("Opinion Concerning Revision of Accounting Standard for Foreign Currency Translation" issued by the Business Accounting Deliberation Council on October 22, 1999). There was no significant effect of this change.

Foreign currency monetary assets and liabilities are translated into Japanese yen at the current rate at the end of the year and the resulting translation gains or losses are included in earnings currently.

Other assets and liabilities denominated in foreign currencies are translated at historical rates.

(5) Securities

Effective April 1, 2000, the Companies adopted the new Japanese accounting standard "Accounting Standards for Financial Instruments" ("Opinion Concerning Establishment of Accounting Standard for Financial Instruments" issued by the Business Accounting Deliberation Council in January 22, 1999).

The Companies applied the following accounting commencing with the year ended March 31, 2001 in accordance with the new accounting standard.

Trading securities are stated at fair market value.

Debt securities designated as held-to-maturity are carried at amortized cost. Other investments (available-for-sale securities) whose fair value is readily determinable are stated at fair value as of the end of the year with unrealized gains and losses, net of applicable deferred tax assets/liabilities, not reflected in earnings, but directly reported in a separate component of shareholders' equity. The cost of securities sold is determined by the moving-average method. Other investments whose fair value is not readily determinable are stated primarily at moving-average cost.

If the market value of held-to-maturity debt securities, equity securities issued by unconsolidated subsidiaries and affiliated companies, and available-for-sale securities, declines significantly, such securities are stated at fair market value and the difference between fair market value and the carrying amount is recognized as loss in the period of the decline. If the fair market value of equity securities issued by unconsolidated subsidiaries and affiliated companies not on the equity method is not readily available, such securities should be written down to net asset value with a corresponding charge in the income statement in the event net asset value declines significantly. In these cases, such fair market value or the net asset value will be the carrying amount of the securities at the beginning of the next year.

The adoption decreased income before income taxes by ¥208 million for the year ended March 31, 2001. Also, based on the examination of the intent of holding each security upon application of the new accounting standard on April 1, 2000, trading securities as well as hold-to-maturity debt securities and available-for-sale securities maturing within one year from the balance sheet date are included in current assets, and other securities are included in investments and other non-current assets. As a result, at March 31, 2001, securities in current assets increased by ¥691 million and investment securities decreased by the same amount compared with what would have been reported under the previous accounting policy.

In prior years listed securities in both marketable securities and investment securities were stated at the lower of moving-average cost or market value. Cost and market value were compared on an item-by-item basis. Other securities were stated at moving-average cost. If a decline in value below cost of an individual security was judged to be material and other than temporary, the carrying value of the individual security was written down.

(6) Inventories

Real estate for sale and real estate development costs are valued at specific-identified cost. Raw materials, merchandise and supplies are valued at the latest purchase price.

(7) Property and equipment

Depreciation is computed by using the straight-line method for buildings and the declining-balance method for other assets over estimated useful lives. However subsidiaries operating golf clubs depreciate property and equipment on the straight-line method.

Expenditures for significant renewals and betterments are capitalized, while expenditures for normal repairs and maintenance are charged to income when incurred.

Expenditures over ¥100,000 and less than ¥200,000 are depreciated over three years.

(8) Software costs

In accordance with the provisional rule of the JICPA's Accounting Committee Report No. 12 "Practical Guidance for Accounting for Research and Development Costs, etc." (the "Report"), the Companies depreciate internal-use software using the straight-line method over the estimated useful lives (five years).

(9) Expenses of issuing common stock and bonds

Expenses of issuing common stock and bonds are charged to expense when incurred.

(10) Bonuses

The Companies follow the general Japanese practice of paying bonuses to employees in July and December. Accrued employees' bonuses at the balance sheet date are calculated based upon management's estimate of the annual amounts thereof.

Bonuses to directors and statutory auditors, which are subject to approval at the general meeting of shareholders, are accounted for as an appropriation of retained earnings.

(11) Bonds with warrants

Proceeds from the issuance of bonds with warrants are allocated to the consideration received for the warrants and the bonds. The proceeds allocated to the warrants are shown in current liabilities in the consolidated balance sheets.

(12) Retirement benefits

Employees' retirement benefits: Under the terms of the Company's retirement plan, substantially all employees are entitled under most circumstances, upon mandatory retirement or earlier voluntary severance, to lump-sum payments based on compensation at the time of severance and years of service. In addition 80% of retirement benefits are covered by a non-contributory funded pension plan.

Prior to April 1, 2000, the liability for the lump-sum payments was stated at 40% of the amount which would have been required if all of its employees voluntarily retired at the balance sheet date.

Effective April 1, 2000, the Companies adopted the new Japanese accounting standard "Accounting for Retirement Benefits" ("Opinion Concerning the Establishment of Accounting Standard for Retirement Benefits" issued by the Business Accounting Deliberation Council on June 16, 1998). The adoption decreased income before income taxes by ¥628 million, including the effect of the ¥253 million gain on transfer of investment securities to pension assets, for the year ended March 31, 2001.

In order to provide for the employees' retirement benefits, the Companies accrue a liability at an amount calculated based on the estimated projected benefit obligation and plan assets at the end of the year. The net transition obligation of ¥763 million was expensed in the year of adoption.

Directors' and statutory auditors' retirement benefits: Directors and statutory auditors receive lump-sum payments upon retirement subject to approval at the general meeting of shareholders. The retirement benefit liability represents the amount based on the Company's regulations.

(13) Income taxes

The Companies recognize tax effects of temporary differences between the carrying amounts of assets and liabilities for tax and financial reporting. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

(14) Accounting for certain finance leases

Finance leases which do not transfer ownership of the leased assets to the lessee, are accounted for in the same manner as operating leases.

(15) Hedge accounting*a. Hedge accounting*

Japanese GAAP provides for two accounting methods for hedging financial instruments. One method is to recognize as gain or loss the changes in fair value of a hedging instrument in earnings in the period of the change together with the offsetting loss or gain on the hedged item attributable to the risk being hedged. The other method is to defer the gain or loss to maturity of the hedging contract. The Company has adopted the latter accounting method.

b. Hedging instruments and hedged items

Hedging instruments	Hedged items
Interest rate swap contracts	Interest expense on borrowings
Forward foreign currency exchange contracts	Foreign currency payables
Foreign currency swap contracts	German Mark bonds

c. Hedging policy

The Company uses derivatives to hedge future risks of interest and exchange rate fluctuations in accordance with its internal policies and procedures.

(16) Amounts per share

The computations of net income per share of common stock are based on the weighted-average number of shares outstanding during each period.

Diluted net income per share of common stock is computed assuming exercise of all dilutive stock purchase warrants at the beginning of the year or later date of issuance.

Dividends per share shown in the consolidated statements of income include dividends approved, or proposed to be approved, by the shareholders after the end of the year.

3. Information on Securities

The following tables summarize acquisition costs, book values and fair values of securities with available fair values as of March 31, 2001 and 2002:

	Millions of yen				Thousands of U.S. dollars	
	2001		2002		2002	
	Book (Fair) Value	Net Unrealized Losses	Book (Fair) Value	Net Unrealized Losses	Book (Fair) Value	Net Unrealized Losses
Trading securities . . .	¥667	¥288	¥548	¥ 101	\$4,113	\$758

	Millions of yen		
	Book Value	Fair Value	Unrealized Gain
At March 31, 2001			
Held-to-maturity securities	¥7,131	¥7,174	¥ 43

	Millions of yen		
	Original Cost	Book Value	Unrealized Gain (Loss)
Available-for-sale securities:			
Securities with book values exceeding acquisition costs:			
Corporate stocks	¥ 135	¥147	¥ 12
Other investments:			
Corporate stocks	940	635	(305)
Total	¥1,075	¥782	¥(293)

At March 31, 2002	Millions of yen			Thousands of U.S. dollars		
	Book Value	Fair Value	Unrealized Gain	Book Value	Fair Value	Unrealized Gain
Held-to-maturity securities:						
Securities with market values exceeding book values:						
Government bonds	¥4,605	¥4,785	¥180	\$34,551	\$35,902	\$1,351
Other investments:						
Government bonds	2	2	-	15	15	-
Total	¥4,607	¥4,787	¥180	\$34,566	\$35,917	\$1,351
	Original Cost	Book (Fair) Value	Unrealized Gain (Loss)	Original Cost	Book (Fair) Value	Unrealized Gain (Loss)
Available-for-sale securities:						
Securities with book values exceeding acquisition costs:						
Corporate stocks	¥274	¥353	¥ 79	\$2,056	\$2,649	\$ 593
Other investments:						
Corporate stocks	435	382	(53)	3,265	2,867	(398)
Total	¥709	¥735	¥ 26	\$5,321	\$5,516	\$ 195

Total sales of available-for-sale securities sold in the year ended March 31, 2001 amounted to ¥515 million and the related gains amounted to ¥253 million. Total gains or losses of sales of available-for-sale securities for 2002 are not disclosed, because they are immaterial.

The following is a summary of securities with no readily determinable fair values at March 31, 2001 and 2002:

	Millions of yen		Thousands of U.S. dollars
	2001	2002	2002
Held-to-maturity securities:			
Commercial paper	¥ -	¥6,000	\$45,028
Available-for-sale securities:			
Non-quoted corporate stocks	143	143	1,073
Money management fund	1,002	-	-
Non-quoted corporate bonds	-	1,000	7,505
Public bonds investment trust	-	1,000	7,505
Medium-term national bond investment trust	-	752	5,643
Subsidiaries and affiliates	1,120	65	488
	¥2,265	¥8,960	\$67,242

Available-for-sale securities with maturities and held-to-maturity debt securities at March 31, 2001 and 2002 mature as follows:

	Millions of yen			Thousands of U.S. dollars			
	2001			2002			
	Within one year	Over one year but within five years	Total	Within one year	Over one year but within five years	Over five years but within ten years	Total
Government bonds	¥ 499	¥3,632	¥4,131	\$18,822	\$12,007	\$ 3,017	\$33,846
Others	3,000	–	3,000	–	–	7,505	7,505
Total	¥3,499	¥3,632	¥7,131	\$63,850	\$12,007	\$10,522	\$86,379

4. Bank Loans and Long-term Debt

Bank loans at March 31, 2001 and 2002 consisted of short-term notes, generally for 365 days, bearing interest at average rates of approximately 1.3%.

Long-term debt at March 31, 2001 and 2002 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2001	2002	2002
Secured:			
Banks, securities and insurance companies, 1.8%–3.0%, due through 2011	¥13,557	¥13,697	\$102,792
Unsecured:			
Banks, securities and insurance companies, 1.9%–4.0%, due through 2007	3,157	5,189	38,942
3.0% 2nd series Japanese yen unsecured bonds, due 2002 with detachable warrants	400	400	3,002
0.25% Swiss Franc unsecured convertible bonds, due 2005	–	3,405	25,553
	17,114	22,691	170,289
Less amounts due within one year	4,793	5,666	42,522
	¥12,321	¥17,025	\$127,767

Unsecured ¥400 million 3.0% bonds were issued with detachable warrants which entitle the holder to subscribe common stock at an exercise price of ¥975.20 (\$7.32) per share, subject to adjustments in certain circumstances. The warrants are exercisable through September 9, 2002. In June 2001 the Company issued S.Fr.50 million of 0.25% convertible bonds due September 30, 2005. The bonds are convertible into common stock at ¥3,510 (\$26.34) per share. If on March 31, 2002 all warrants of three series, including 2 series held by consolidated subsidiaries, of Japanese yen unsecured bonds were exercised, 865,785 shares of common stock would be issuable.

The following assets were pledged as collateral at March 31, 2001 and 2002:

	Millions of yen		Thousands of U.S. dollars
	2001	2002	2002
Time deposits	¥ 2,526	¥ 1,876	\$ 14,079
Trade notes receivable	1,020	706	5,298
Marketable securities	1,300	2,532	19,002
Land	13,166	9,940	74,597
Buildings and structures	22,469	21,634	162,356
Machinery and equipment	15,668	15,641	117,381
Intangible assets	30	394	2,957
Investment securities	2,408	1,754	13,163
Other investments and non-current assets	300	300	2,251
	¥58,887	¥54,777	\$411,084

Obligations the collateral was pledged to secure were as follows:

	Millions of yen		Thousands of U.S. dollars
	2001	2002	2002
Bank loans	¥ 6,150	¥ 3,750	\$ 28,143
Current portion of long-term debt	3,624	3,580	26,867
Other current liabilities	5	965	7,242
Long-term debt	9,933	10,117	75,925
Lease obligations	259	210	1,576
Contingent liabilities (Note 8)	2,345	87	653
Long-term security deposits	11,490	15,350	115,197
Other	1,383	1,449	10,874
	¥35,189	¥35,508	\$266,477

The annual maturities of long-term debt are as follows:

Years ending March 31, 2002	Millions of yen	Thousands of U.S. dollars
2003	¥ 5,666	\$ 42,522
2004	4,603	34,544
2005	4,955	37,186
2006	5,220	39,174
2007	871	6,537
2008 and thereafter	1,376	10,326
	¥22,691	\$170,289

5. Income Taxes

The Company is subject to a number of taxes based on income, which, in the aggregate, indicate a statutory rate in Japan of approximately 41.8% for the years ended March 31, 2001 and 2002.

Significant components of the Companies' deferred tax assets and liabilities as of March 31, 2001 and 2002 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2001	2002	2002
Deferred tax assets:			
Enterprise taxes	¥ 196	¥ 175	\$ 1,313
Accrued expenses	228	150	1,126
Net operating loss carry forward	992	2,449	18,379
Excess bonuses accrued	183	296	2,221
Directors' retirement benefits	341	353	2,649
Employees' retirement benefits	389	349	2,619
Real estate for sale	–	491	3,685
Other	392	662	4,968
	2,721	4,925	36,960
Valuation allowance	(1,068)	(2,515)	(18,874)
Total deferred tax assets	1,653	2,410	18,086
Deferred tax liabilities:			
Reversal of special reserves in retained earnings	(39)	(33)	(247)
Gain on transfer of investment securities to pension assets	(106)	(103)	(773)
Other	(4)	(16)	(120)
	(149)	(152)	(1,140)
Net deferred tax assets	¥ 1,504	¥ 2,258	\$ 16,946

The following table summarizes the significant differences between the statutory tax rate and the Companies' effective tax rate for financial statement purposes for the years ended March 31, 2001 and 2002.

	2001	2002
Statutory tax rate	41.8%	41.8%
Non-deductible expenses	0.9	0.8
Per capita inhabitants' tax	0.9	1.3
Valuation allowance for net operating loss carry forwards	1.5	5.3
Effect of prior year's income taxes	–	4.3
Other	(0.2)	(2.1)
	3.1	9.6
Effective tax rate	44.9%	51.4%

6. Employees' Retirement Benefits

As explained in Note 2., Significant Accounting Policies, effective April 1, 2000, the Companies adopted the new accounting standard for employees' severance and retirement benefits, under which the liabilities and expenses for severance and retirement benefits are determined based on the amounts obtained by actuarial calculations.

The liabilities for severance and retirement benefits included in the liability section of the consolidated balance sheets as of March 31, 2001 and 2002 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2001	2002	2002
Projected benefit obligation	¥(1,740)	¥(1,928)	\$(14,469)
Unrecognized prior service costs	(139)	(104)	(780)
Unrecognized actuarial differences	54	80	600
Less fair value of pension assets	1,276	1,505	11,294
Liability for severance and retirement benefits	¥ (549)	¥ (447)	\$ (3,355)

Included in the consolidated statements of income for the years ended March 31, 2001 and 2002 are severance and retirement benefit expenses comprised of the following:

	Millions of yen		Thousands of U.S. dollars
	2001	2002	2002
Service costs — benefits earned during the year	¥ 280	¥242	\$1,816
Interest cost on projected benefit obligation	50	44	330
Expected return on plan assets	(10)	(16)	(120)
Amortization of prior service costs	(35)	(35)	(263)
Net transition obligation amortized	764	—	—
Amortization of actuarial differences	—	11	83
Severance and retirement benefit expenses	¥1,049	¥246	\$1,846

The discount rate and the rate of expected return on plan assets used by the Companies are primarily 3.0% and 1.5%, respectively. The estimated amount of all retirement benefits to be paid at future retirement dates is allocated equally to each service year using the estimated number of total service years. Past service costs are recognized as an expense in equal amounts primarily over 5 years, and actuarial gains/losses are recognized in the income statements using the straight-line method primarily over 5 years commencing with the following period.

7. Shareholders' Equity

Prior to October 1, 2001, the Commercial Code provided that an amount equal to at least 10% of cash dividends paid and other cash outlays resulting from appropriation of retained earnings with respect to each fiscal period be transferred to the legal reserve until such reserve equals 25% of the stated common stock. The legal reserve and additional paid-in capital were not available for dividends but could be used to reduce a deficit by resolution of the shareholders or could be capitalized by resolution of the Board of Directors.

The Code, amended effective October 1, 2001, provides that such transfer from retained earnings to the legal reserve is required until an aggregated amount of additional paid-in capital and the legal reserve equals 25% of the stated common stock. Under the condition that the aggregate amount of additional paid-in capital and legal reserve remains being equal to or exceeding 25% of common stock, the excess portion is available for distribution or appropriation for certain other purposes by the resolution of shareholders' meeting.

Legal reserve is included in retained earnings.

In addition, the Code provides that at least one-half of the issue price of new shares be included in common stock. In conformity therewith, the Company may divide the principal amount of bonds converted into common stock equally into common stock and additional paid-in capital by resolution of the Board of Directors.

8. Contingent Liabilities

At March 31, 2001 and 2002, the Companies were contingently liable as follows:

	Millions of yen		Thousands of U.S. dollars
	2001	2002	2002
As guarantor of bank loans to customers and others	¥6,718	¥4,497	\$33,749

9. Derivative Transactions

The Companies use derivative transactions to manage effectively future risk of fluctuation of interest rates and foreign currency exchange rates. The Companies use foreign currency swap contracts in order to fix, in Japanese yen, the future principal and interest payments on the German Mark bonds due 2000, and use forward currency exchange contracts to minimize exchange rate risk related to the future payment of overseas investments in a foreign currency. The Companies use interest rate swap contracts with respect to interest rates to mitigate interest on loans payable and avoid future risk of fluctuation of interest rates. The Companies do not use such transactions for the purposes of speculation or short-term dealing.

The following summarizes hedging derivative financial instruments used by the Companies and items hedged:

Hedging instruments	Hedged items
Interest rate swap contracts	Interest expense on borrowings
Forward foreign currency exchange contracts	Foreign currency payables
Foreign currency swap contracts	German Mark bonds

The Companies hedge future risk of fluctuations in foreign currency exchange rates and interest rates mainly based on internal management regulations.

The Companies evaluate hedge effectiveness for the whole hedge term by comparing the cumulative changes in fair value or the cumulative changes in cash flows from hedging instruments and hedged items and the corresponding changes in the hedging derivative instruments.

The derivative transactions are subject to future risk of interest rate changes and foreign currency exchange rate change, and credit risks which arise from nonfulfillment of contracts by the collapse of the contract partner of the derivative transactions. Since the Companies execute derivative transactions using only counter parties of high credit rating, the Companies believe there is almost no credit risk.

The Companies have established policies that restrict dealing in derivatives and that require reporting to and review by appropriate officials of the Companies.

10. Finance Leases

Information for non-capitalized finance leases of the Companies as lessee at March 31, 2001 and 2002 is as follows:

	Millions of yen		Thousands of U.S. dollars
	2001	2002	2002
Original lease obligation (including finance charges)	¥4,597	¥4,762	\$35,737
Payments due within one year	¥ 717	¥ 755	\$ 5,666
Payments due after one year	1,744	1,402	10,522
Payments remaining	¥2,461	¥2,157	\$16,188

Lease payments under finance leases for the years ended March 31, 2001 and 2002 were ¥737 million and ¥792 million (\$5,944 thousand), respectively.

Information for finance leases of the Companies as lessor at March 31, 2001 and 2002 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2001	2002	2002
Payments due within one year	¥53	¥ –	\$ –
Payments due after one year	–	–	–
Payments remaining	¥53	¥ –	\$ –

In addition at March 31, 2001 and 2002 payments remaining on subleases amounted to ¥15 million and ¥9 million (\$68 thousand), of which ¥5 million and ¥5 million (\$38 thousand), respectively, are due within one year.

11. Industry Segment Information

The Companies' operations were classified into four industry segments as follows:

2001	Millions of yen					Consolidated
	Membership	Hotel & Restaurant	Development	Golf	Eliminations and Corporate	
Sales to unaffiliated customers	¥25,730	¥29,530	¥3,038	¥ 5,472	¥ –	¥ 63,770
Intersegment sales	1	1,215	383	55	(1,654)	–
Total revenue	¥25,731	¥30,745	¥3,421	¥ 5,527	¥ (1,654)	¥ 63,770
Operating income	¥ 9,904	¥ 1,728	¥ 654	¥ 65	¥ (4,748)	¥ 7,603
Assets	¥35,986	¥49,978	¥2,655	¥79,257	¥36,291	¥204,167
Depreciation	251	2,804	18	732	322	4,127
Capital expenditures	221	7,973	192	2,936	481	11,803

Corporate assets of ¥36,291 million are comprised mainly of cash and time deposits, securities and administration department assets.

Operating expenses included in the operating loss in the eliminations and corporate column include expenses of administrative divisions.

Effective April 1, 2000, the Companies adopted the new Japanese accounting standard "Accounting for Retirement Benefits". The effect for the year ended March 31, 2001 was to decrease operating income in "Membership", "Hotel & Restaurant", "Development", "Golf" segments, and "Eliminations and Corporate", by ¥17 million, ¥70 million, ¥1 million, ¥14 million, and ¥13 million, respectively.

Effective April 1, 2000, the Companies adopted the new Japanese accounting standard for financial instruments. The effect for the year ended March 31, 2001 was to decrease assets in "Membership", "Hotel & Restaurant", and "Development" segments by ¥178 million, ¥2 million, and ¥2 million, respectively and was to increase assets in "Eliminations and Corporate" by ¥66 million. The effect for the year ended March 31, 2001 was to decrease operating income in "Membership", "Hotel & Restaurant", "Development" segments, and "Eliminations and Corporate", by ¥178 million, ¥2 million, ¥2 million, and ¥2 million, respectively.

Geographic segment information is not disclosed as domestic sales are over 90% of total segment sales including inter-segment sales. Overseas sales information is not disclosed as overseas sales are less than 10% of consolidation sales.

The Companies reclassified the segments in the current fiscal year. The Companies excluded High Technology Medical Complex Co., Ltd., R.C.I. JAPAN CO., LTD., and JUSTFINANCE Co., Ltd. from the "Membership" segment to characterize the "Membership" segment as sale of hotel memberships. The Companies established the "Medical" segment as sale of Medical memberships for High Technology Medical Complex Co., Ltd., and included R.C.I. JAPAN CO., LTD. and JUSTFINANCE Co., Ltd. in the "Hotel & Restaurant" segment and "Others", respectively.

Segment information, under the new classification for the years ended March 31, 2001 and 2002, is as follows:

		Millions of yen							
2001	Membership	Hotel & Restaurant	Development	Golf	Medical	Others	Eliminations and Corporate	Consolidated	
Sales to unaffiliated customers	¥21,211	¥30,673	¥3,110	¥ 5,615	¥2,739	¥ 422	¥ -	¥ 63,770	
Intersegment sales	-	768	383	6	28	-	(1,185)	-	
Total revenue	21,211	31,441	3,493	5,621	2,767	422	(1,185)	63,770	
Operating income (loss)	¥ 6,549	¥ 2,562	¥ 704	¥ 107	¥ 662	¥ 172	¥ (3,153)	¥ 7,603	
Assets	¥21,836	¥50,616	¥4,907	¥82,540	¥2,174	¥10,229	¥31,865	¥204,167	
Depreciation	110	2,808	18	730	137	2	322	4,127	
Capital expenditures	26	7,986	192	2,937	181	1	480	11,803	
		Millions of yen							
2002	Membership	Hotel & Restaurant	Development	Golf	Medical	Others	Eliminations and Corporate	Consolidated	
Sales to unaffiliated customers	¥17,372	¥34,189	¥1,234	¥ 5,368	¥2,615	¥ 634	¥ -	¥ 61,412	
Intersegment sales	-	1,382	99	66	12	-	(1,559)	-	
Total revenue	17,372	35,571	1,333	5,434	2,627	634	(1,559)	61,412	
Operating income (loss)	¥ 5,408	¥ 2,176	¥ (44)	¥ (115)	¥ 699	¥ 239	¥ (2,248)	¥ 6,115	
Assets	¥21,471	¥49,953	¥4,262	¥77,503	¥1,953	¥14,546	¥39,433	¥209,121	
Depreciation	19	2,989	43	740	159	2	462	4,414	
Capital expenditures	13	1,536	53	1,654	184	1	534	3,975	
		Thousands of U.S. dollars							
2002	Membership	Hotel & Restaurant	Development	Golf	Medical	Others	Eliminations and Corporate	Consolidated	
Sales to unaffiliated customers	\$130,371	\$256,578	\$ 9,261	\$ 40,285	\$19,625	\$ 4,758	\$ -	\$ 460,878	
Intersegment sales	-	10,371	743	495	90	-	(11,699)	-	
Total revenue	130,371	266,949	10,004	40,780	19,715	4,758	(11,699)	460,878	
Operating income (loss)	\$ 40,585	\$ 16,330	\$ (330)	\$ (863)	\$ 5,246	\$ 1,794	\$ (16,871)	\$ 45,891	
Assets	\$161,133	\$374,882	\$31,985	\$581,636	\$14,657	\$109,163	\$295,932	\$1,569,388	
Depreciation	143	22,431	323	5,553	1,193	15	3,467	33,125	
Capital expenditures	98	11,527	398	12,412	1,381	8	4,007	29,831	

Operating expenses included in the operating loss in the eliminations and corporate column include expenses of administrative divisions.

Geographic segment information is not disclosed as domestic sales are over 90% of total segment sales including intersegment sales. Overseas sales information is not disclosed as overseas sales are less than 10% of consolidated sales.

12. Investment in Leveraged Lease Partnership

In 1988 the Company invested in a leveraged lease partnership, investing ¥2,955 million, of which ¥1,000 million terminated in 1999. The investment of ¥1,955 million (\$14,672 thousand) terminated in November 2001. As a result, the Company recognized a liquidation profit of ¥2,945 million (\$22,101 thousand) in "Gain on termination of leveraged lease partnership".

13. Minority Interests

OKAZAKI CLASSIC CO., LTD., a consolidated subsidiary, issued 272 shares of preferred non-voting stock at the issue price of ¥3,250,000 per share on June 5, 2001 in a public offering in Japan.

Also OAKMONT GOLF CLUB CO., LTD., a consolidated subsidiary, issued 336 shares of preferred non-voting stock at the issue price of ¥2,750,000 per share on August 3, 2001 by allocation to third parties in Japan.

These cash flows from financing activities are disclosed as proceeds from issuance of preferred stock to minority shareholders in consolidated statements of cash flows.

14. Appropriation of Retained Earnings

At the general meeting of shareholders of the Company held on June 27, 2002, retained earnings as at March 31, 2002 were appropriated as follows:

2002	Millions of yen	Thousands of U.S. dollars
Year-end cash dividends (¥20.0 per share)	¥458	\$3,437
Bonuses to directors and statutory auditors	118	886

15. Notes Receivable Maturing on March 31, 2002

In accordance with Japanese GAAP, the Companies, for comparative purposes, recorded on March 31, 2002, the settlement of notes receivable maturing on March 31, 2002, a banking holiday in Japan, even though such settlement took place by way of bank transfers on the following banking day.

The amounts of such notes were as follows:

	Millions of yen	Thousands of U.S. dollars
Trade notes receivable	¥117	\$878

16. Loss Contingencies

Maple Point Golf Club operated by Japan Classic Co., Ltd., a consolidated subsidiary, and St. CREEK GOLF CLUB CO., LTD., a consolidated subsidiary, are defendants in two and four lawsuits, respectively. These lawsuits are claims for return of club members' deposits. Maple Point Golf Club has resolved to extend the period of deferment for ten more years after maturity of club members' deposits by meeting of the members on July 11, 2000.

17. Subsequent Events

- (1) The Company resolved at a meeting of its Board of Directors held on May 17, 2002, and at its ordinary general meeting of shareholders held on June 27, 2002, pursuant to Article 210 of the Commercial Code of Japan, to purchase up to 1 million shares of the Company's common stock at prices not to exceed ¥3,000 million (\$22,514 thousand).
- (2) The Company resolved at a meeting of its Board of Directors and at its ordinary general meeting of shareholders held on June 27, 2002 to issue common stock acquisition rights for up to 700 thousand shares as stock options, pursuant to Articles 280-20 and 280-21 of the Commercial Code of Japan. Under the terms of the Company's common stock acquisition rights plan, its directors and certain other employees may be granted options to purchase the Company's common stock at 105% of the previous month's average market price as of the grant date. The exercise period starts on November 1, 2002 and ends on June 26, 2007.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

28 RESORTTRUST

To the Shareholders and the Board of Directors of
RESORTTRUST, INC.

We have audited the accompanying consolidated balance sheets of RESORTTRUST, INC. (a Japanese corporation) and subsidiaries as of March 31, 2001 and 2002, and the related consolidated statements of income, shareholders' equity and cash flows for the years then ended, expressed in Japanese yen. Our audits were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the consolidated financial statements referred to above present fairly the consolidated financial position of RESORTTRUST, INC. and subsidiaries as of March 31, 2001 and 2002, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan (Note 1) applied on a consistent basis, except as noted in the following paragraph.

As explained in Note 2, in the year ended March 31, 2001, RESORTTRUST, INC. and subsidiaries prospectively adopted new Japanese accounting standards for foreign currency translation, financial instruments and retirement benefits.

Also, in our opinion, the U.S. dollar amounts in the accompanying consolidated financial statements have been translated from Japanese yen on the basis set forth in Note 1.

Asahi & Co.

Nagoya, Japan
June 27, 2002

CORPORATE DATA

As of March 31, 2002

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Company Name:	RESORTTRUST, INC.	
Headquarters:	2-18-31, Higashisakura, Naka-ku, Nagoya-shi, Aichi 460-8490, Japan Tel: 81-52-933-6000	
Tokyo Office:	Shinjuku Island Tower 7F, 6-5-1 Nishi-Shinjuku, Shinjuku-ku, Tokyo 163-1346, Japan Tel: 81-3-5323-8111	
Office and Branches:	Osaka Office, Plaza Umeshin, 4-15-18, Nishitenma, Kita-ku, Osaka 530-0047, Japan Tel: 81-6-6315-8686 Yokohama Branch, 2-5-10, Shin-Yokohama, Kohoku-ku, Yokohama-shi 222-0033, Japan Tel: 81-45-477-5251 Shizuoka Branch, 6F No.1 Aioi Insurance Shizuoka Bldg. 3-1, Sakae-cho, Shizuoka-shi 420-0031, Japan Tel: 81-54-251-1711	
URL:	http://www.resorttrust.co.jp/	
Established:	April 1973	
Common Stock:	¥3,315.2 million	
Number of Employees:	2,311 (Parent Company)	
Fiscal Year-end:	March 31	
Corporate Officers:	Chairman and CEO President and COO Senior Managing Director Senior Managing Director Managing Director Managing Director Managing Director Director Director Director Director Director Director Director Director Director Corporate Auditor Corporate Auditor Corporate Auditor Corporate Auditor	Yoshiro Ito Katsuyasu Ito Masahiro Iwata Noriaki Takanami Yukihisa Ebata Katsuyoshi Kitagawa Nobuhiko Kawasaki Masaaki Ito Satomi Hayashido Masao Matsuzaki Yukihisa Ito Atsuyuki Shintani Toshihiko Uchiyama Tatsuo Masui Hiroshi Miyamoto Hidejiro Ise Toru Iwasaki Kiyozumi Nakajima
Consolidated Subsidiaries:	JES Co., Ltd. Sun Hotel Agent Co., Ltd. R.C.I. JAPAN CO., LTD. U.S. Sakuma, Co., Ltd. R.T DEVELOPMENT CO., LTD. Tajimi Classic Co., Ltd. OKAZAKI CLASSIC CO., LTD. OAKMONT GOLF CLUB CO., LTD. Japan Classic Co., Ltd. Resorttrust Naruto Co., Ltd. St. CREEK GOLF CLUB CO., LTD. High Technology Medical Complex Co., Ltd. JUSTFINANCE Co., Ltd. R.F.S Co., Ltd.	

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